

OGC Has Reviewed

SUBSIDIES

1. Definition.
2. Projects.

SECRET

26 May 1949

SUBJECT: Definition of Subsidy for
Covert Operational Purposes

1. There has recently been much discussion of subsidies and subsidy projects, and I believe that some disagreement has arisen due partly to the fact that all concerned are not thinking of exactly the same situations. It is common, under such circumstances, to attempt agreement on a common definition. We are suggesting, in order to initiate such agreement, that the definition in the large Webster dictionary be accepted as stated below and applied to covert operations:

"SUBSIDY - A sum of money granted by one state to another, as to a friendly power to aid in the prosecution of a war. A grant of funds or property from a government, as of the state or a municipal corporation, to a private person or company to assist in the establishment or support of an enterprise deemed advantageous to the public; a subvention. In practice subsidies are chiefly granted in aid of transportation enterprises, as to ship, canal, air-transport, or railroad companies, bounties on sugar being next in importance. A subsidy may be a simple gift or may consist in the payment of an amount in excess of the usual charges for any service, as in carrying the mails, or of funds to aid in establishing or maintaining a service or equipment larger or more powerful than the state of trade would warrant, as the building and keeping in service of vessels designed for use as cruisers and auxiliaries in war. Subsidy is often inexactly used to designate an entire payment for services, as for carrying mail, which properly speaking includes compensation for actual services and a subsidy proper, consisting in the sum paid in excess of the compensation."

2. We are particularly interested in the statement that subsidy is often inexactly used to designate an entire payment for services. We believe this is equally applicable to the use of subsidy in those cases where we are in complete control of an operation. Thus if we merely use a company, individual, or agency as a cutout or agent to run a project which is

SECRET

entirely a CIA project, no question of subsidy is involved and the matter is arranged in the ordinary covert project manner since we have complete, or nearly complete, control over all details. These would not require study by any special committee, but would be handled in a routine fashion through consultation and coordination with the Confidential Funds Branch, the General Counsel for the contract, and such other supporting offices as might be appropriate.

3. As stated in the definition, the subsidy problems arise when we make a gift or an overpayment in order to produce certain results in furtherance of our purposes. These are true subsidies and require the greatest freedom of approach, but also contain by their nature the greatest dangers both to security and to the Agency's relations with Congress and the Comptroller General. A study of such true subsidies by a special committee is to us a minimum requirement in view of the inherent difficulties. In the event any member of the committee has any doubt in his mind as to the final recommendation, he should be quite free to raise his questions with the Assistant Director concerned, and if he still has unresolved doubts, the matter should go directly to the Director.

4. Very generally, it can be stated that since a subsidy is a grant, gift or overpayment, the donor is in a position to impose reasonable conditions. The word "reasonable" is used advisedly as the condition may vary from complete and detailed agreements and accountings in the average case to an oral understanding and report in a most unusual situation.

LAWRENCE R. HOUSTON
General Counsel

SECRET